

INTERNATIONAL AUDITING AND ASSURANCE STANDARDS BOARD (IAASB)
INVITATION TO COMMENT ON IMPROVING THE AUDITOR'S REPORT

Comments by the BOTSWANA INSTITUTE OF CHARTERED ACCOUNTANTS (BICA)

BICA is a professional accountancy body and a member of the Pan African Federation of Accountants (PAFA) and the International Federation of Accountants (IFAC)

IAASB’s Suggested Improvement(s)	Our Comments; Value and Impediments
Overall Considerations	
<p>1. Overall, do you believe the IAASB’s suggested improvements sufficiently ensure the relevance and information value of the auditor’s report, in view of possible impediments (including costs) Why or why not?</p>	<p>The current form and content of the auditor’s report is certainly not an option going forward and the need for improvement is imperative. There are areas in the IAASB’s suggested improvements that can be subjected to more debate in order to further maximize value with minimum impediments. As indicated in a number of comments below, there is still “boilerplate” text and “clutter” in some paragraphs of the suggested improved auditor’s report. Additionally, the title “Audit Commentary” may need to be revisited and the positioning of going concern issues may need to be rationalized and included in one section for possible further improvement of the report.</p> <p>There is also a feeling that additional information without guidance on what to include may threaten the use of auditor’s judgment and lead to disclosure of all audit findings to avoid being accused of withholding audit findings. This will lead to disclosure of immaterial findings and obscure key matters.</p> <p>It is also important to keep in mind that the auditor’s report is on general purpose financial statements intended for a wide range of users.</p>
<p>2. Are there other alternatives to improve the auditor’s report, or auditor reporting more broadly, that should be further considered by the IAASB, either alone or in coordination with others? Please explain your answer.</p>	<p>The illustrative auditor’s report gives the impression that professional judgment and professional skepticism are only exercised and maintained at the planning and performance stages of the audit process (refer first line on page 12 of the invitation to comment (ITC) in the illustrative audit report). It is our view that the value of the report can be further improved by rewording this line to reflect the fact that professional judgment and professional skepticism are applied throughout the whole audit process from engagement acceptance procedures to reporting.</p>

Auditor Commentary	
<p>3. Do you think the concept of Auditor Commentary is an appropriate response to the call for auditors to provide more information to users through the auditor's report? Why or why not? (See paragraphs 35-64.)</p>	<p>The heading "Auditor Commentary" appears to be misleading and needs to be revisited once there is greater clarity as to what the contents of this section will be. Clear guidance needs to be given by the IAASB to assist the auditor in determining what to include, thus avoid the danger of including too much detail in it that may obscure key matters.</p>
<p>4. Do you agree that the matters to be addressed in Auditor Commentary should be left to the judgment of the auditor, with guidance in the standards to inform the auditor's judgment? Why or why not? If not, what do you believe should be done to further facilitate the auditor's decision-making process in selecting the matters to include in Auditor Commentary? (See paragraphs 43-50.)</p>	<p>The section should be used to highlight significant issues coming out of the audit with prescriptive guidance given to the auditors in determining what to include. This is because of the wide range of issues that are potential candidates for inclusion in this section. Terms like "users", "judgment", "most important" are used vaguely and introduce subjectivity in the manner they are used in the Auditor Commentary. The auditors are required to include what in their <i>(subjective)</i> judgment, is likely to be most important to users' understanding of the audited financial statements. Being general purpose financial statements, "users" include a wide range of stakeholders and other parties and this leaves it to the auditors to subjectively determine which users they are going to make the additional statements to. The IAASB should be more prescriptive and give guidance on (a) the use of judgment by the auditor, (b) who it refers to as "users" and (c) on what is "most important" since these are subject to diverse interpretation. In the absence of such guidance, the suggested improvement should be dropped.</p> <p>Of equal importance is the need for clarity and guidance on the relationship between Auditor Commentary and the current Emphasis of Matter concept. Our view is that the two cannot be used jointly in the same audit report without causing undue repetition of the same issues.</p>
<p>5. Do the illustrative examples of Auditor Commentary have the informational or decision-making value users seek? Why or why not? If not, what aspects are not valuable, or what is missing? Specifically, what are your views about including</p>	<p>Any illustrations given must be very clear, concise and not misleading or subjective if they are to add value. The section should not be "abused" for including issues that should lead to a qualification and in the end not qualify the opinion, i.e. it should not be used as a substitute</p>

<p>description of audit procedures and related results in Auditor Commentary? (See paragraphs 58-61.)</p>	<p>for a qualified opinion. Including a description of audit procedures and related results in the Auditor Commentary is not necessary. Reference to the fact that the audit was conducted in accordance with ISA and the nature of the opinion given by the auditor achieves the objective.</p> <p>Care should be taken;</p> <ul style="list-style-type: none"> ➤ Not to make the auditor the original source of information. The auditor can only summarize and provide context on why what management has already disclose in the financial statements and information accompanying the financial statements is significant or important. ➤ Not to fill information gaps in what management has disclosed. Where there are material gaps in disclosures by management, this should lead to a modification of the audit opinion. ➤ To limit the number of matters commented on in the commentary to maintain value addition. A large number of immaterial matters may lead to öclutterö, which obscures important information. ➤ Not to comment on issues that have other legitimate forms of address in the audit process e.g.; internal control deficiencies (covered in the management letter), audit scoping (covered in the engagement letter), and detailed audit procedures (covered in the audit working papers).
<p>6. What are the implications for the financial reporting process of including Auditor Commentary in the auditorö report, including implications for the roles of management and those charged with governance (TCWG), the timing of financial statements, and costs? (See paragraphs 38 and 62-64.)</p>	<p>There are potential implications in terms of opening the audit and financial statements to open debate and arguments, possible publication delays, all of which may have cost implications. There is also a broader issue of shifting some of the auditorö obligations to report to those charged with governance (TCWG) to an obligation to report to the wider stakeholders. This may need legal backing at jurisdiction level implying possible changes to local laws. The auditorö report is addressed to the öMembersö/ öShareholdersö of the company and TCWG as representatives of the members/shareholders are</p>

	appraised of any significant issues included in the Auditor Commentary during the course of the audit and/or at the end.
7. Do you agree that providing Auditor Commentary for certain audits (e.g. audits of public interest entities (PIEs)), and leaving its inclusion to the discretion of the auditor for other audits is appropriate? Why or why not? If not, what other criteria might be used for determining the audits for which Auditor Commentary should be provided? (See paragraphs 51-56.)	Requirements at each level of financial reporting framework must be the same for consistency and comparability. Consistent with the development of “ <i>Guide to Using International Standards on Auditing in the Audits of Small-and Medium-Sized Entities</i> ”, the Small and Medium Practices Committee of IFAC should also provide guidance on the whole revised auditor’s report as it relates to SMEs, not just the Auditor’s Commentary section.
Going Concern/Other Information	
8. What are your views on the value and impediments of the suggested auditor statements related to going concern, which address the appropriateness of management’s use of the going concern assumption and whether material uncertainties have been identified? Do you believe these statements provide useful information and are appropriate? Why or why not? (See paragraphs 24-34.)	The suggested auditor statements are important but should support demonstrated management efforts regarding establishing the appropriateness of the use of the going concern assumption and related disclosures by management in the financial statements. The auditor’s statements should preferably refer to going concern disclosures by management in the financial statements.
9. What are your views on the value and impediments of including additional information in the auditor’s report about the auditor’s judgments and processes to support the auditor’s statement that no material uncertainties have been identified? (See paragraphs 30-31.)	It may be useful to consider putting all issues relating to going concern under one section to avoid repetition of the same issues in different sections of the report.
10. What are your views on the value and impediments of the suggested auditor statement in relation to other information? (See paragraphs 65-71.)	ISA 720 “ <i>The Auditor’s Responsibilities Relating to Other Information in Documents Containing Audited Financial Statements</i> ” requires the auditor to read the other information to identify material inconsistencies. The suggested auditor’s statement in relation to other information does therefore not add value. By asserting that the audit was carried out in accordance with ISA, the detailed audit steps suggested under Other Information are assumed to have been carried out unless there were material problems in which case they would be addressed in the audit opinion.
Clarifications and Transparency	
11. Do you believe the enhanced	Articulating the respective responsibilities of

<p>descriptions of the respective responsibilities of management, TCWG, and the auditor in the illustrative auditor's report are helpful to users' understanding of the nature and scope of an audit? Why or why not? Do you have suggestions for other improvements to the description of the auditor's responsibilities? (See paragraphs 81-86.)</p>	<p>various players in the financial statements preparation and audit process is important. It assists in communicating to the users, responsibilities of various players in the financial statements supply chain. However this should be done in a brief and appropriately tailored manner, as far as possible avoiding lengthy technical and standardized "boilerplate" text.</p>
<p>12. What are your views on the value and impediments of disclosing the name of the engagement partner? (See paragraphs 72-73.)</p>	<p>Other than enhanced perception of transparency in the audit process, additional value is really dependent on specific jurisdiction laws. It is one area which may be difficult to achieve global consistency. National flexibility consistent with jurisdiction laws may be easier to achieve.</p>
<p>13. What are your views on the value and impediments of the suggested disclosure regarding the involvement of other auditors? Do you believe that such a disclosure should be included in all relevant circumstances, or left to the auditor's judgment as part of Auditor Commentary? (See paragraphs 77-80.)</p>	<p>The suggested disclosure regarding other auditors adds no value given the applicable "sole responsibility" principle. The disclosure adds to the length of the audit report with no corresponding addition in the value of the report and can be regarded as "clutter". Evaluation of the other auditor is the responsibility of those that make the appointment and not the users of the financial statements. The group auditors also have a responsibility for the quality of the work of the other auditor. Prohibition of reference to another auditor by ISA 600 "<i>Special Considerations-Audits of Group Financial Statements (Including the Work of Component Auditors)</i>" is appropriate and should be maintained.</p>
<p>14. What are your views on explicitly allowing the standardized material describing the auditor's responsibilities to be relocated to a website of the appropriate authority, or to an appendix to the auditor's report? (See paragraphs 83-84.)</p>	<p>Those that perceive the developing and emerging economies as not familiar with the concept of an audit as stated in paragraph 83 of the ITC, should realize that the concept of an audit cannot be fully explained in an audit report. The suggested detailed description therefore amounts to more "boilerplate" and "clutter" which may result in loss of key messages. Care should be taken to manage the impact of behavioral influences of various stakeholders on "clutter" in the audit report. It is important to appreciate the current global concerns and efforts to cut "clutter" from annual reports. The audit report should not be seen moving in the opposite direction by including more and non-value adding text. The auditor's report should be a stand-alone</p>

	report with no references to websites (which may not be accessible to all users) or appendices.
Form and Structure	
15. What are your views on whether the IAASB's suggested structure of the illustrative report, including placement of the auditor's report and the auditor commentary section towards the beginning of the report, gives appropriate emphasis to the matters of most importance to users? (See paragraphs 17-20.)	The structure suggested by the IAASB is considered appropriate and value adding subject to consideration of our comment to Question 9.
16. What are your views regarding the need for global consistency in auditors' reports when ISAs, or national auditing standards that incorporate or are otherwise based on ISAs, are used? (See paragraphs 21-23 and 87-90.)	Consistency in auditors' reports for audits conducted in accordance with ISA is important and enhances value to users. Any jurisdiction specific requirements should be complied with and carefully worded and included in the ISA audit report.
17. What are your views as to whether the IAASB should mandate the ordering of items in a manner similar to that shown in the illustrative report, unless the law or regulation require otherwise? Would this provide sufficient flexibility to accommodate national reporting requirements or practices? (See paragraph 17 and Appendix 4.)	The proposed ordering of issues in the auditor's report is appropriate. However our comment to Question 9 above may need to be considered.
18. In your view, are the IAASB's suggested improvements appropriate for entities of all sizes and in both public and private sectors? What considerations specific to the audits of small- and medium entities (SMEs) and public sector entities should the IAASB further take into account in approaching its standard-setting proposals? (See paragraphs 91-95.)	Regarding SMEs, our comment to Question 7 above is pertinent. While recognizing the notion that "an audit is an audit", it is important to equally recognize the need for proportionate application of ISAs to SMEs and the differential reporting framework of IFRS for SMEs and their implications on the audit report of SMEs. Public sector entities in most jurisdictions are included in the definition of Public Interest Entities. The suggested IAASB improvements to the auditor's report should equally apply to such public sector entities.